

70% of subprime borrowers aren't getting help

A new report finds that efforts to help at-risk borrowers are barely keeping pace with rising delinquencies. Many borrowers are left out.

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NEW YORK (CNNMoney.com) -- Seven out of 10 seriously delinquent subprime mortgage borrowers are still not getting the help they need to keep their homes.

That's according to a report released Tuesday by the State Foreclosure Prevention Working Group, a coalition formed by eleven state attorneys general and the Conference of Bank Supervisors in the summer of 2007 to work with loan servicers to prevent unnecessary foreclosures.

"Our collaborative efforts to date have failed to prevent a large number of unnecessary foreclosures," said North Carolina Deputy Commissioner of Banks Mark Pearce. "We need to find solutions that fit the size of the problem we are facing."

The report, which surveyed lender efforts and [programs like Hope Now](#), found that the number of borrowers getting help each month has increased from about 210,000 in October to nearly 261,000 in January. But because the total number of troubled borrowers is also growing so quickly, from 820,000 seriously delinquent loans last fall to over 1 million at the start of the year, the proportion of mortgage rescues has remained essentially unchanged.

"We're still way behind," said Iowa Attorney General Tom Miller, who helped form the coalition.

Nearly a quarter of all subprime loans are in delinquency. About 300,000 subprime borrowers are now in some stage of foreclosure, up 8% since last October.

Hard to handle

Mortgage servicers are overwhelmed, unable to cope with the sheer numbers of delinquent loans, according to the report. The fact that about two-thirds of all mortgage modification efforts are not completed by the following month is evidence that servicers are falling behind.

"We're finding the servicing system can't manage and re-underwrite millions of loans," Pearce said at a press conference announcing the results. "The [case-by-case approach](#) [they're using now] was not designed to handle the numbers of loans they're dealing with."

Delinquent loans headed for foreclosure are "clogging up" the system, slowing the pace of modification efforts and possibly adding to the number of vacant homes in many communities. The report warned that could drive down home prices even more.

There was some good news: More troubled borrowers are getting comprehensive, long-term mortgage modifications. These workouts change the loan terms, lowering the interest rate, the balance or both to make payments more affordable.

The Working Group also made two recommendations to improve the rate of mortgage modifications: Slow down the foreclosure process to give servicers more time to find solutions for individual borrowers, and take a more systematic approach to modifying loans. That would eliminate some of the intensive case-by-case counseling that is now involved.

Additionally, the coalition came out in support of efforts to allow bankruptcy judges to reduce mortgage balances to reflect current market values, as well as expanding the role of the Federal Housing Authority in refinancing subprime loans.

Subprime loan performance still subpar

The performance of subprime loans has continued to deteriorate, with many of the loans completed in 2006 and 2007 already in default.

For example, 28.5% of subprime adjustable rate mortgages (ARMs) that won't reset until Spring, 2009 are already delinquent. About 21% of these same loans were delinquent in October.

The report concluded that "very weak underwriting and mortgage origination fraud, and not simply payment resets," are what's driving subprime loan defaults.